

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON JOZINI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Jozini Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the Standard of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Jozini Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Jozini Municipality as at 30 June 2010, and its financial performance and cash flows for the year then ended in accordance with SA Standard of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

10. With reference to note 24 to the financial statements, the municipality is engaged in a dispute regarding the termination of a contract for which the ultimate outcome cannot presently be determined. A contingent liability of R4,3 million has been disclosed.

Restatement of corresponding figures

11. As disclosed in notes 24 and 25 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of correction of an error and the conversion to SA Standards of GRAP for the year ended 30 June 2010.

Irregular expenditure

12. As disclosed in note 27 to the financial statements the municipality has incurred irregular expenditure totalling R56 320 as a result of payments being made to service providers who were directors or shareholders in the service of other state departments which is in contravention of SCM regulation 44.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Other information included in the annual report

14. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations (MFMA, DoRA and Local Government Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Municipal Regulations (Regulations –GNR/GN) and financial management (internal control).

Predetermined objectives

17. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Non-compliance with regulatory and reporting requirements

18. Incomplete reporting on all predetermined objectives, indicators and targets

The performance management framework and process plan did not contain priorities, objectives, indicators and targets as reflected in the Integrated Development Plan, as required by section 38(a)(iii) of the MSA.

19. Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved strategic plan/corporate plan/annual performance plan/integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

20. Planned and reported performance targets were not relevant, measurable and time bound

Planned and reported performance targets are not:

- Specific in clearly identifying the nature and the required level of performance
- Measurable in identifying the required performance
- Time bound in specifying the time period or deadline of delivery

21. Reported information not consistent

- For a sample of the key performance areas selected, inconsistencies of reported information against audited information were noted.
- A sample of development objectives/priorities contained in the SDBIP were mapped to the Annual Performance Report, and inconsistencies were noted.

22. Inadequate content of integrated development plan

Certain development objectives/priorities in the 2009-10 Service Delivery Budget Implementation Plan (SDBIP) did not involve mapping the projects contained in the 2010 Integrated Development Plan (IDP).

23. Reliability of reported performance information

The following criteria were used to assess the reliability of the planned and reported performance:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

24. Inadequate content of integrated development plan

- The integrated development plan of Jozini Municipality did not include organisational key performance indicators and performance targets as required by section 26(i) of the MSA.
- An inspection of a sample of key performance indicators (KPIs), as reflected in the performance plans for the municipal manager and section 57 employees, revealed that KPIs could not be aligned to the IDP (2009-10) as organisational KPIs were not contained in the IDP.

25. No supporting source documentation

Sufficient and appropriate audit evidence was not maintained to validate the assessment of the municipality in terms of section 72 of the MFMA.

Compliance with laws and regulations

Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA)

Supply Chain Management legislative requirements were not adhered to

26. Certain councillors and staff members did not declare in writing to the municipal manager their financial interest, as required by schedules 1 (7) and Schedule 2(5) to the MSA.

Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)

27. Expenditure was not paid within the parameters set by the applicable legislation

Expenditure was not paid within the parameters set by the applicable legislation as Management did not take reasonable steps to ensure that all payments are made within 30 days of receiving the relevant invoice, as required by section 65(2)(e) of the MFMA.

28. The financial statements were not prepared in accordance with applicable legislation

Contrary to the requirements of section 122(1) of MFMA the municipality did not prepare financial statements in accordance with legislative requirements that fairly presents the state of affairs of the municipality as material misstatements were identified during the audit which was subsequently corrected.

Supply Chain Management Regulations

29. Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

Payments totalling R56 320 were made to a supplier with a member in the employ of the state, which is contrary to regulation 44 of the SCM.

INTERNAL CONTROL

30. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives, as well as compliance with key laws and regulations (MFMA, DoRA and MSA), but not for the purpose of expressing an opinion on the effectiveness of internal control.

31. The matters reported are limited to the significant deficiencies that gave rise to the findings on the report on predetermined objectives and the findings on compliance with laws and regulations

- **Leadership**

Management has not exercised oversight responsibility of performance reporting. Actions were not taken to address risks relating to the achievement of complete and accurate reporting of predetermined objectives.

- **Financial and performance management**

High-level reviews were not appropriate to facilitate the preparation of quality financial statements, resulting in significant amendments being made to the financial statements submitted for audit.

Auditor-General

Pietermaritzburg

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

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